

PEI LENDING AGENCY

Annual Report 2008-2009



*Prince
Edward
Island*

CANADA

Message of the Minister

The Honourable Barbara A. Hagerman
Lieutenant Governor of Prince Edward Island
PO Box 2000
Charlottetown, PE C1A 7N8



May it Please Your Honour:

Pursuant to the *PEI Lending Agency Act* and as Minister designate, it is my privilege to submit the Annual Report of the PEI Lending Agency for the period ending March 31, 2009.

Respectfully submitted,

A handwritten signature in cursive script that reads "Allan V. Campbell".

Allan V. Campbell
Minister
Department of Innovation and Advanced Learning

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Message of the Board Chair

March 31, 2009

The Honourable Allan V. Campbell
Minister of Innovation and Advanced Learning
Province of Prince Edward Island



Dear Minister:

On behalf of the Board of Directors of the PEI Lending Agency, I take pleasure in presenting you with this, the Annual Report of the Agency for the fiscal year ending March 31, 2009.

This report is being presented pursuant to the *PEI Lending Agency Act* and Regulations.

Sincerely,

A handwritten signature in cursive script that reads "Ivan Shreenan".

Ivan Shreenan, Chairman
Board of Directors
PEI Lending Agency

Message from the Chief Executive Officer

Ivan Shreenan, Chairman
Board of Directors
PEI Lending Agency



Dear Mr. Shreenan:

Once again it is my pleasure to present the Annual Report of the PEI Lending Agency, for the fiscal year ending March 31, 2009.

As indicated by the accompanying financial statements, the Agency is once again reporting positive operating results. Despite a 50 per cent decrease in applications year over year, the Agency's asset base increased by 7.4 per cent. The significant decrease in applications is directly affiliated to the loans which were provided under the Low Interest Loan Program for Fishers, as this program closed in 2008.

The Agency has built its reputation of providing financial assistance to those in the Island's agriculture and fishing communities, when it is most needed. The future opportunities for growth are expected to be in tourism and the manufacturing sector of the economy. Traditional lenders are becoming more cautious in providing loans to businesses whose revenues are generated from seasonal activities or whose markets are outside of Canada and are affected by currency fluctuations.

Staff of the Agency have continued to meet the challenges that present themselves which require striking a balance between an acceptable level of risk and ensuring that the needs of Island businesses are met. It is not always an easy task, and for that, I would like to take this opportunity to thank them for making an extra effort in finding innovative ways to ensure the interests of the Agency and those of our clients are met.

Respectfully submitted,

A handwritten signature in cursive script that reads "P.A. Wilson".

P.A. Wilson
Chief Executive Officer

Mandate of the PEI Lending Agency

The mandate of the PEI Lending Agency is to provide financial assistance, through loan agreements, in support of the government's economic development strategy; to support enterprises that demonstrate reasonable viability, though are unable to access private sector financing on terms and conditions required to meet their needs; and to provide loans and credit assistance to businesses maintaining or expanding economic development activity on Prince Edward Island.

The agency is to operate as a responsible, professional lender, basing decisions or recommendations on sound lending practices. Under the authority of the *PEI Lending Agency Act* and Regulations, the Board of Directors, consisting of six private sector and two government designated directors, provide agency staff with consistent guidance and direction. They strive to meet the needs of Island industries and individual businesses throughout the constantly shifting priorities and challenges which may evolve as a result of local provincial issues or from various constraints imposed by national and international markets.

Though the general mandate of the agency will remain unchanged, the focus may be altered in favour of specific industries, at government's direction, or through identifiable gaps which may emerge in commercial bank financing. With their singular objective of profitability and with policy decisions which are generally nationally directed, there will always be areas or gaps left by the banks that the agency will be needed to fill.

As the province's lending arm, the agency will undoubtedly continue to collaborate with other Government departments and corporations to structure financial programs to promote new development or to assist industry-specific difficulties. It continues to support the needs of our primary industries for capital purchases, expansion and operational expenses as well as encourages financing of non-traditional, potentially prosperous new enterprises.

The agency is unquestionably a higher-risk lender and often lender of last resort. Where any business can continue to demonstrate a potential for viability, the agency is generally supportive to providing assistance as it will maintain current employment while offering the operator the opportunity for recovery. This is a role the agency has historically provided and numerous businesses have been ultimately successful due to this support in difficult times. Also, differing from the commercial banks' profit requirement, the agency's mandate is to strive for a break-even operation. If this can be achieved, there are numerous benefits to the province, in various capacities, but no cost to the taxpayer for the service. By sustaining businesses and maintaining employment, it reduces the drain on already stressed provincial and federal support programs. In addition, revenue from business, personal and sales taxes is maintained. These are all valuable considerations and are weighed, along with various other factors, when decisions are made by agency staff.

Corporate Profile

The PEI Lending Agency was established to provide both term and working capital loans to eligible borrowers in the following sectors:

Small Business

Definition – Small business includes any person that:

- (i) carries on business, or intends to carry on business, in the province;
- (ii) purchases a finished product from a supplier and resells that product without alteration; and
- (iii) does not employ more than 100 employees; or
- (iv) did not have annual gross sales exceeding \$10 million in the fiscal year immediately preceding an application made pursuant to Section 9 of the act.

This program is designed to meet the special needs of the Island's small business community and entrepreneurs for business acquisitions, expansions and debt consolidation.

Agriculture

Definition – Agriculture includes any person that:

- (i) carries on business, or intends to carry on business, in the province;
- (ii) owns or will acquire farm assets with the loan proceeds pursuant to the act or the regulations; and
- (iii) is actively engaged in farming or intends to work actively at producing farm products.

It is the objective of the agency to encourage increased production of both established and new variety agricultural products, as well as improved marketing facets and techniques for PEI agricultural products. This may include better storage, handling, grading and packaging facilities.

Tourism

Definition – Tourism includes any person that:

- (i) carries on business, or intends to carry on business, in the province; and
- (ii) operates a business, other than a Bed and Breakfast establishment as defined in the Tourism Industry Act Regulations (EC267/99), that holds a valid tourism establishment licence issued pursuant to the Tourism Industry Act Regulations.

Projects to expand the shoulder tourist season and development of integrated recreational complexes which would feature entertainment facilities, lodging and dining facilities are encouraged. In some cases, loans may be granted for accommodation units which are converted to other uses during off-season periods.

This program is designed to meet the special needs of Island tourism operators for business acquisitions, expansions and debt consolidation, refurbishment of fixed assets and in some cases working capital for seasonal start-up.

Bed and Breakfast operations, as defined by the *Tourism Industry Act Regulations*, are ineligible to borrow from the agency.

Manufacturing and Processing

Definition – Manufacturing and processing includes any person that:

- (i) carries on business, or intends to carry on business, in the province; and
- (iii) operates a business which produces a product by mechanical method from a raw material that is altered to add value.

Loans are available to finance land and buildings, specialized equipment, and in some cases, production inventory.

Fisheries/Aquaculture

Definition – Fisheries and Aquaculture includes any person that:

- (i) carries on business, or intends to carry on business, in the province; and
- (ii) is licensed or qualified to obtain a licence or aquaculture permit issued by the Federal Department of Fisheries and Oceans, for any of the commercial fisheries or aquaculture industries in the province.

The objective of the agency is to provide term financing, recapitalization and operating lines of credit to assist applicants in the commercial fishery and/or aquaculture industry. The agency takes a particular interest in supporting projects that have a potential commercial viability for under-exploited species of finfish, shellfish and sea plants.

Information Technology

Definition – Information technology includes any person that:

- (i) carries on business, or intends to carry on business, in the province; and
- (ii) operates a business that derives at least 60 per cent of revenue from software publishing, computer systems design and related services, the provision of online information services, or the manufacture of computer and peripheral equipment or related electronic components.

The objective of the agency is to provide term financing and operating lines of credit to assist borrowers purchasing fixed assets and for production and marketing expenses.

Aerospace

Definition – Aerospace includes any person that:

- (i) carries on business or intends to carry on business in the province;
- (ii) owns or will acquire assets of an aviation or aerospace-related business with loan proceeds received pursuant to the act or the regulations; and
- (iii) is actively engaged in or intends to work actively in an aviation or aerospace-related business.

Year in Review

The financial results reported by the Agency for the fiscal year ending March 31, 2009, reflect a 54 per cent increase in net profit over the previous year, and while this equates to only slightly more than \$930,000 on assets of \$180.5 million, it is once again another year of positive results for the Agency. There was also a noticeable increase in assets of 7.4 per cent, \$168 million in 2008 to \$180.5 million at the close of 2009. There were also 174 applications received throughout the year, excluding those received from the various Energy Loan Programs. Of this number, 149 were approved, while the remaining 25 were either declined or withdrawn by the applicant.

The Agency experienced little or no growth in its aerospace, manufacturing or IT sector when comparing to the year-end figures of the prior year. The majority of investment opportunities came from the resource based sectors of the economy, including fisheries and agriculture. It was, in fact, for the benefit of these borrowers and those that were involved in the emerging tourism industry 'of the time', that the Agency was established in the late 1960s.

The fishing sector continues to encounter the most devastating effects of the sluggish economy. Despite the higher landings, fishermen once again are receiving lower prices, while operating expenses such as fuel and bait continue to grow. It is interesting to note, of the 174 applications received during 2008-09, approximately one-half involved the fisheries sector. However, while this industry continues to experience hardship, there did not exist a need to increase the provision for loan loss for this sector.

The agriculture community has not been without its share of challenges. Changing weather patterns, escalating input costs, increasing capital equipment expenses, and smaller profit margins have again affected our farmers. The increased debt load and the ability

to service same has led to a number of growers financially restructuring their farming operations. It's expected these setbacks will take many farmers years to recover from.

During the year in review, the Agency also experienced considerable growth in the number of loans provided under the various energy loan programs offered by the Office of Energy Efficiency. The loan funds and administration of these programs however are provided by the Lending Agency. The loans are made available to home owners for renovations that will improve the energy efficiency of their personal dwellings, or to purchase equipment that will provide an alternative or supplemental source of heat. While this particular portfolio increased by 411 borrowers, representing a total of \$2,990,000 by the end of 2009, there is little risk exposure to the Agency as these loans are guaranteed by the Department of Environment, Energy and Forestry.

Despite the troubles or hardships experienced by Island industries as noted in this report, the health of the Agency's portfolio remains relatively stable. The submission of financial information by our borrowers, site visitations, and the personal relationships which have been formed between Agency staff and their borrowers allows for effective monitoring and risk management of the files.

The majority of the Agency's line-by-line items on the 2009 Income Statement are self-explanatory, however, there are some items that may have a noticeable variance and require comment:

Grant From the Province – The Agency has historically received a grant from the province to supplement the revenues generated from operations and is used to offset operational costs. This amount can be adjusted +/- based on what the Agency might require during the annual budget process forecast. For fiscal ending

March 2009, the amount received from the province was \$1,433,800.

Alternative Energy Loan Fees – The Agency administers and maintains the Alternative Energy Loan Programs on behalf of the Department of Environment, Energy and Forestry. The interest revenue generated specifically from that program is recorded separately and is retained by the Agency to offset the administrative expenses associated in administering the various programs.

Interest from Borrowers – Revenues generated on both the fixed and floating term loan advances provided by the Agency. The purpose of the rate spread is to help mitigate potential losses that can occur as a result of interest rate fluctuations during market volatility. The decrease of approximately half a million from that budgeted, is attributed to the rate offered to the Island fishing community for loans received via the Loan Interest Loan Program for Fishers, which, on average, were two per cent lower than those provided to other clients of the Agency.

Prepayment Interest – A penalty collected from borrowers who pay out their loan(s) prior to maturity. This is a standard penalty levied by all financial institutions.

Service Fees – An application fee of one-half of one per cent of the loan amount is levied toward any new applications received or renewals processed by the Agency. The administration fees associated with administering the Low Interest Loan Program for Fishers is also included in this figure and represents \$123,000 collected for the periods ending March 31, 2007 and 2008.

Post Receivership Income – This represents the income received through various types of collection methods, for loans which had been previously written off. During fiscal 2009, this represented a collection of \$15,000 on a failed bakery shop, and the remainder from three smaller files.

Operationally, the Agency has historically operated and continues to operate within its approved budget. Again this year, the approved budget for operating overhead expenses (rent, utilities, equipment, salaries, etc.) excluding interest expense and loan loss provisions, was \$957,840. The actual expenses incurred were \$1,071,562, a variance of \$113,722. The majority of this variance is attributed to salaries and benefits which was the result of a severance package paid to a retiring employee, and the salary increases and retro-active pay to April 2008.

The only two significant variances recorded on the attached financial statement are in interest expense and loan loss provision, which is explained as follows:

Interest – Represents the interest expense incurred and paid by the Agency, on its borrowings from the Province. This expense is offset by the revenue generated by the Agency, to its clients. The year-over-year decrease is attributed to the improved and lower long- and short-term rates secured due to market conditions, than were forecasted during the preparation of the budget.

Provision for loan loss – As a major part of the budget process, the Agency establishes annually, an amount for possible loan losses based on the existing loan portfolio. This allowance is based on management's judgement and where economic trends suggest a loss may occur, but where such losses cannot yet be determined. The loan loss provision established during the budget process for fiscal 2008/09, remained unchanged at \$4,000,000.

Overall, the PEI Lending Agency continues to operate as a financially responsible crown corporation, consistent in its commitment to assisting Island businesses. It continues to provide an essential service that, without which, many of our borrowers would not be able to access the capital needed to sustain or grow their operations.

Agriculture

As the Agency's regulations state, borrowers in this sector must either own or intend to acquire farm assets with the loan proceeds. They must be either actively engaged in, or intend to work actively at, producing farm products. A further objective of the Agency is to encourage and foster increased production of established and new varieties of agricultural products and to assist those that improve upon the marketing and promoting of PEI agricultural products. In addition to working capital loans, fixed rate loans are provided to the agricultural sector for the purpose of improving storage, barns, farm machinery and grading/packaging equipment.

At years end, 19.1 per cent or \$34.6 million of the Agency's total loan portfolio was outstanding to the agriculture sector. This represented only a slight increase of \$1.7 million over the same time period last year. The majority of loans provided to this industry were for debt consolidation and for terming out operating lines that experienced little fluctuation. During the year a total of 43 applications for credit were received, totalling \$13.3 million.

Throughout the year, the Agency continued to work closely with an increasing number of existing farm clients who have been experiencing financial difficulties. Assistance has been provided to restructure loan facilities for clients whose operations continue to be viewed as viable over the long term. Depressed prices and shrinking profit margins have continued in various sectors of the industry. As a result, it is fully expected that the Agency will continue to receive financial requests for restructuring purposes, well into 2010, from both new and existing clients.

Non-current loans, which would be those loans that are in arrears by more than 90 days or for which a potential for loss has been identified, reflected an increased of \$2.4 million over the same time the previous year. This increase, to slightly more than \$7 million was borne by

25 clients, which is also up over the same period last year, by 10 borrowers.

The 2008 potato crop, which is captured in the Agency's 2008/2009 results, experienced relatively favourable growing conditions but was adversely affected by late blight in September. Late blight, a water mold, is caused by excessive moisture and heat which if left undetected, can cause storage issues. Although the table stock market enjoyed significantly higher prices than the 2007 crop, yields were diminished by the higher cull rate due to disease and rot. Claims against crop insurance were approximately double those of the previous year.



The Island's struggling hog industry continues to face an uncertain future. The closure of the hog processing plant in Sherwood in 2008, and the continuation of decreased profit margins led a number of producers to exit the hog industry. While some decided to get out of farming altogether, others have turned their attention to other areas of agriculture, such as poultry, soybeans and root vegetable production, just to name a few.

The impact of the economic downturn continues to affect the beef industry at the consumer, processor and farm levels. Languishing beef prices and increasing operational costs have resulted in financial losses and a decline in the number of Island beef farmers. Prices have been depressed since the discovery of BSE in 2003. The negative impact on profit margins has left many beef producers in financial difficulty. It is expected that the feeder prices established during the fall

of 2009 will result in a number of beef farmers now evaluating their future within this industry. Despite the decline in producer numbers, a significant portion of Atlantic Canada's producers are located here in PEI. For that reason, the Agency will continue to work with existing clients in this sector to provide support wherever the potential for long term viability can be determined.

PEI's blueberry industry has grown considerably over the past 10 to 15 years in response to increased demand by consumers and the introduction of the Blueberry Loan Development Program in the 1990s. The program, which continues to be administered by the Lending Agency, was introduced by the Department of Agriculture to provide financing to growers either looking to enter the industry or expand existing operations. The program included flexible repayment terms and, further into the program, a component of interest relief which was fully paid out by December 2008.

The 2008 crop experienced above-average rainfall in August and September and made the blueberry harvest extremely difficult. Reports of crop loss have been documented due to heavy rains beating the berries off the vines or from fields that were too wet to harvest prior to berry drop. Despite these conditions, the industry produced 9.8 million pounds of wild blueberries in 2008, which is an increase of 18 per cent over the previous year's 8.3 million pounds. Unfortunately prices for the 2008 crop fell to approximately \$0.60 pound, compared to prices reaching \$1.10 to \$1.20 for the 2007 crop, and over \$1 per pound paid in 2006. The prediction for 2009 is an increase in production in the 11 to 12 million pound range; however, prices are expected to fall again to below 2008 prices. The Agency will continue to support the industry and its growers where viable opportunities exist.

In 2008, PEI's 14 cranberry growers produced approximately 643,000 pounds of cranberries, up from 586,000 pounds in 2007 and 450,000 pounds in 2006. The majority of the crop went for processing markets and the

remainder to the fresh market. The number of growers remains constant on PEI; however, there was a slight increase in the number of acres grown as some operations were expanded. In 2008, there were approximately 113 acres in various stages of commercial development by the industry. At that time, approximately 76 acres would have actually been commercially productive, with the remaining 37 acres not yet to the producing stage. The average prices paid to growers for the fresh fruit product in 2008 was approximately \$1.50 to \$2 per pound. The processing market paid anywhere from \$0.85 to \$0.90 per pound for the 2008 crop, which compares to approximately \$0.80 per pound for the 2007 crop and \$0.55 per pound for the 2006 crop. In 2008, the acreage increased, however, it is not yet productive. Production is predicted to be about the same in 2009 as it was the previous year.

Fisheries and Aquaculture

For the fiscal year ending March 31, 2009, the Agency received 88 fishery related applications for loans totalling \$10,250,000, representing approximately 50 per cent of the total applications received by the Agency for the year. While this was a 75 per cent decrease from the 193 applications received in 2008, that high was due in large part to the introduction of a low interest loan program for lobster fishers in areas 25 and 26A that year. That program provided a low borrowing cost to fishers of four per cent, to a maximum loan amount of \$200,000, and was made available to eligible fishers by the Agency for debt consolidation purposes.

Understandably, this increased the Agency's requests for financing at that time. The drop in the number of requests experienced over the period in review, is merely a return to the more standard financing requirement of the sector, but remains high however, in comparison to other economic sectors in the Agency's portfolio.

The Agency's total loan exposure, related to the fishing sector at year's end, totalled \$63,395,000, which represents a 20 per cent increase over the

same period last year. Loans outstanding to the fishing industry represented 36 per cent of the Agency's total portfolio, and is comprised of 369 borrowing clients with 386 loans by years end. In 2008, 31 per cent of the total portfolio was fishing related, representing 296 borrowing clients and 314 loans. The Island's three major fisheries continue to be lobster, mussels and oysters, and generated approximately \$100.7 million, \$22.4 million and \$5.7 million [respectively] in sales in 2009. Lobster, which continues to be, by far, the largest grossing species, is further broken down by landings as follows:



| Fishing Area | 2008 Landings (lbs) | 2007 Landings (lbs) | Year over Year Percentage Decrease/Increase |
|--------------------------------|---------------------|---------------------|---|
| Area 24 (north side) | 14,036,441 | 13,230,026 | 6.1 + |
| Area 26A (south side – spring) | 4,832,251 | 3,880,136 | 24.5 + |
| Area 25 (south side – fall) | 3,033,650 | 3,013,874 | 0.7 + |
| Total | 21,902,342 | 20,124,036 | 8.8 + |

The north side, Area 24, continues to experience significantly higher landings than Areas 25 and 26A. The most noticeable change was in Area 26A which had a dramatic increase of 24.5 per cent from 2008. All areas have had their own unique challenges. Despite an increase in landings, it has not managed to compensate for the lower shore prices, and operational cost increases currently being experienced by Island fishermen.

At fiscal year end, 85 of the Agency's 369 clients were in some state of arrears, representing slightly more than \$6 million. For the same period last year, there were 40 of 299 clients in arrears by \$3.2 million. While the year-over-year results have nearly doubled, \$2.8 million of these loan arrears are attributed to seven snow crab fishers.

The Agency continues to maintain a considerable loan exposure to the fishing industry. Moving into the future, the Agency sees a continuation to provide support for this

industry through its current state of upheaval. Agency staff will continue to make every effort to work with its borrowers, improve the financial position, and to mitigate the increased potential for loan losses.

Tourism

This sector has struggled over the last few years, and 2008 experienced no real recovery, at least for businesses involved in providing fixed roof accommodations and campgrounds which are located in the rural parts of the province. The global economic downturn negatively impacted consumer confidence, resulting in a level of public reluctance to spend on luxury expenditures, such as travel. The allure of winter travel to southern destinations boasting "all-inclusive" resorts combined with the poor weather experienced locally in early July, also contributed to low occupancy levels this year.



During the past fiscal year, the Agency received eight applications totalling \$2,411,750, of which four were approved, for loans totalling \$1,163,387. This sector saw the number of clients decrease to 39 from 48. Total loans at year end were \$23,530,013 representing a 15.5 per cent decrease in the portfolio volume as compared to last year.

In spite of these declining numbers, the health of the portfolio remains relatively good. Arrears at year end included five accounts with total dollars in arrears at \$1,335,202. This compared to nine accounts for \$1,870,700 at the same time the year prior. The Agency maintains hard security for all of the investments in the portfolio which keeps the risk of losses low.

Small Business

Unlike the agriculture, fisheries and tourism sectors, which are more precisely defined business industries, the small business portfolio is comprised of a very diverse client base. Loans provided to this sector are primarily for commercial mortgages, as working capital financing is not provided to this sector.

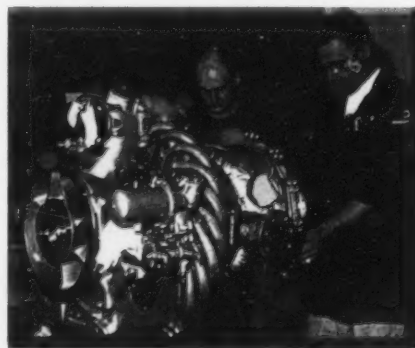
For the year ending March 31, 2009, the Agency received 20 applications for credit, 17 of which received support for \$12.9 million. By year's end, nearly \$7 million of these approvals had been disbursed. Arrears continue to be low,

accounting for three per cent of the portfolio, or \$790,000.

Similar to the other sectors, small business operators are making every attempt to do more with less. They appear to be choosing instead to wait until they can be certain the market will support capital expansions before incurring additional debt. As with the tourism sector, tangible assets are the primary security for loans in the small business sector.

Aerospace

The agency currently provides financing to businesses involved in the repair and overhaul of fixed-wing aircraft, and interior design and construction of cabin areas. The Aerospace portfolio currently represents 15 per cent of the Agency's total portfolio of \$178 million. Unlike the other sector portfolios, where risk tends to be well distributed among a large number of clients, investments in the Aerospace sector are held by only two companies. During the period under review, there were only two applications received for consideration, totalling \$13 million. One was approved, the other withdrawn.



The Agency has seen little growth or opportunities in this sector over the last 10 years in comparison to the period of time when Slemon Park was first established. The capital loans that were required in the early years and were provided by government are now being replaced by other financial and debt instruments, accessed by our clients directly

from money markets. The larger multinational companies within the park are either publicly traded or contain the borrowing capacity to be, for the most part, self financing.

Clients within this sector are required and continue to report financials on a quarterly basis. The overall risk to this sector remains stable with no loan arrears reported at year end.

Manufacturing and Processing

Loans are provided, within this sector, to a variety of industries including: food processors, equipment manufacturers and boat builders.

The past fiscal year has been turbulent for manufacturers and processors, with a troubled global economy and a high Canadian dollar creating much chaos for those involved in this sector. Economic uncertainty and stagnant growth forecasts have resulted in fewer applications being received by the Agency compared to last year.

During 2008/2009, the Agency received 12 applications totalling \$6.9 million, which is up nearly \$5.5 million over the previous year. The size of requests was not high, however, with the average being \$173,000, separate of one individual request for \$5 million. The Agency's total investment in this sector at year's end was only \$7.5 million which compares to \$11.5 in 2008. It accounts for four per cent of the Agency's overall loan portfolio, which is down from seven per cent in 2008.

Information Technology

The Agency has experienced no growth in this sector for the third straight year, and currently has no loan exposure in this sector. Only one application, which was ultimately declined, was received in the period under review.



Bilan de l'année

Les résultats financiers présentés par l'Agence de prêt de l'Île-du-Prince-Édouard pour l'exercice ayant pris fin le 31 mars 2009 montrent une hausse de 54 % du bénéfice net par rapport à l'exercice précédent, et bien que cette hausse ne représente qu'un peu plus de 930 000 \$ sur des actifs de 180,5 millions de dollars, il s'agit une fois de plus d'un exercice positif pour l'Agence. On note aussi une hausse de 7,4 % des actifs, qui sont passés de 168 millions de dollars en 2008 à 180,5 millions de dollars à la fin de l'exercice 2009. L'Agence a reçu 174 demandes au cours de l'exercice, sans compter celles reçues dans le cadre des différents programmes de prêts pour l'efficacité énergétique. De ce nombre, 149 ont été approuvées, tandis que les 25 autres ont été soit refusées, soit retirées par le demandeur.

L'Agence a connu une croissance modeste ou nulle dans les secteurs de l'aérospatiale, de la fabrication et de la technologie de l'information par rapport à l'exercice précédent. La majorité des possibilités d'investissement sont venues des secteurs primaires de l'économie, notamment des pêches et de l'agriculture. C'est en fait pour venir en aide aux clients de ces secteurs et à ceux qui œuvraient dans la jeune industrie touristique de l'époque que l'Agence a été créée à la fin des années 1960.

Le secteur des pêches continue de subir les effets dévastateurs de la stagnation de l'économie. Malgré l'augmentation du nombre de débarquements, l'industrie continue d'être confrontée à la baisse des prix payés aux pêcheurs et à la hausse des dépenses d'exploitation, comme l'essence et les appâts. Il est intéressant de noter que, des 174 demandes reçues au cours de l'exercice 2008-2009, environ la moitié provenaient du secteur des pêches. Toutefois, bien que l'industrie continue d'éprouver des difficultés, il n'a pas été jugé nécessaire de majorer les provisions pour pertes sur prêts dans ce secteur.

La communauté agricole a aussi connu sa juste part de défis. Les producteurs ont à nouveau dû faire face à des conditions météorologiques imprévisibles, à une montée en flèche du coût des intrants, à une augmentation des dépenses pour les biens d'équipement et à une diminution des marges de profit.

L'augmentation du niveau d'endettement des producteurs et la diminution de leur capacité à rembourser leurs dettes ont incité certains d'entre eux à procéder à une restructuration financière de leurs activités. Il faudra vraisemblablement plusieurs années à bon nombre de ces producteurs pour se remettre de ces revers.

Au cours de la période à l'étude, l'Agence a également connu une hausse considérable du nombre de prêts accordés en vertu des différents programmes de prêts pour l'efficacité énergétique offerts par l'Office de l'efficacité énergétique. L'Agence est responsable de la gestion de ces programmes et des fonds d'emprunt qui s'y rattachent. Ces prêts sont consentis à des propriétaires qui souhaitent faire des rénovations pour améliorer l'efficacité énergétique de leur résidence ou acheter un appareil offrant une source de chauffage supplémentaire ou de remplacement. Bien que 411 clients se soient ajoutés à ce portefeuille, pour des prêts totaux s'élevant à 2 990 000 \$ à la fin de l'exercice 2009, les risques sont faibles pour l'Agence puisque ces prêts sont garantis par le ministère de l'Environnement, de l'Énergie et des Forêts.

Malgré les difficultés que connaissent les industries de l'Île, telles qu'exposées dans le présent bilan, la santé du portefeuille de l'Agence demeure relativement stable. Les données financières fournies par nos clients, les visites sur les lieux et les liens qui se sont tissés entre le personnel de l'Agence et les emprunteurs permettent une surveillance et une gestion des risques efficaces pour les dossiers.

La majorité des postes des états des résultats de 2009 de l'Agence sont explicites. Toutefois, les écarts observés pour certains nécessitent quelques explications :

Subvention du gouvernement provincial – Habituellement, l'Agence reçoit du gouvernement provincial une subvention qui permet de compléter les revenus tirés de ses activités et de compenser les frais d'exploitation. Le montant de la subvention peut être révisé à la hausse ou à la baisse en fonction des prévisions établies par l'Agence pendant le processus budgétaire annuel. Pour l'exercice qui s'est terminé en mars 2009, cette subvention s'élevait à 1 433 800 \$.

Frais liés aux prêts pour le recours à des sources d'énergie de remplacement – L'Agence administre et gère les programmes de prêts pour le recours à des sources d'énergie de remplacement pour le compte du ministère de l'Environnement, de l'Énergie et des Forêts. Les revenus provenant des intérêts relatifs à ces programmes sont comptabilisés séparément et conservés par l'Agence pour compenser les dépenses liées à l'administration des divers programmes.

Intérêts payés sur les fonds empruntés – Revenus provenant des intérêts versés par les emprunteurs sur les prêts à terme fixe et variable consentis par l'Agence. L'écart entre les taux permet de limiter les pertes pouvant résulter des fluctuations des taux d'intérêt en période de volatilité des marchés. Les intérêts versés par les emprunteurs ont été inférieurs de près de 500 000 \$ par rapport à ce qui avait été prévu. Cette situation s'explique par le taux offert aux pêcheurs de l'Île pour les prêts obtenus dans le cadre du programme de prêts à faible taux d'intérêt pour les pêcheurs. Ce taux était, en moyenne, 2 % inférieur aux taux consentis aux autres clients de l'Agence.

Païement anticipé des intérêts – Pénalité imposée aux emprunteurs qui remboursent leurs prêts avant la date d'échéance. Il s'agit d'une pénalité standard appliquée par toutes les

institutions financières.

Frais administratifs – Des frais de demande de 0,5 % du montant du prêt sont exigés pour toutes les nouvelles demandes et tous les renouvellements traités par l'Agence. Les frais liés à l'administration du programme de prêts à faible taux d'intérêt pour les pêcheurs sont également inclus dans ce montant et représentent une somme de 123 000 \$ pour les périodes terminées le 31 mars 2007 et le 31 mars 2008.

Revenus provenant des mises sous séquestre – Il s'agit de fonds recueillis de diverses manières par l'Agence après une radiation. Du total recueilli au cours de l'exercice 2009, une somme de 15 000 \$ provient de la faillite d'une boulangerie. Le reste provient de trois dossiers de moindre importance.

Sur le plan opérationnel, l'Agence a toujours travaillé dans les limites du budget alloué et continue de le faire. Encore une fois cette année, le budget approuvé pour les frais généraux d'exploitation (p. ex. loyer, services publics, équipement et salaires), outre les frais d'intérêts et les provisions pour pertes sur prêts, était de 957 840 \$. Les dépenses réelles ont été de 1 071 562 \$, ce qui représente un écart de 113 722 \$ par rapport au budget prévu. La majorité de cet écart est attribuable aux salaires et aux avantages sociaux, soit une indemnité de départ versée à un employé prenant sa retraite, ainsi que les hausses salariales et leur rétroactivité au mois d'avril 2008.

Les deux seuls écarts d'importance observés dans les états financiers ci-joints concernent les frais d'intérêts et les provisions pour pertes sur prêts. Ces écarts s'expliquent ainsi :

Frais d'intérêts – Il s'agit des intérêts engagés et payés par l'Agence sur les fonds empruntés au gouvernement provincial. Ces frais sont compensés par les revenus d'intérêts sur les prêts que l'Agence consent à ses clients. La diminution des frais d'intérêts par rapport à l'exercice précédent découle des conditions favorables du marché, qui ont permis d'obtenir des taux

d'intérêt à court et à long termes inférieurs à ce qui avait été prévu à l'établissement du budget.

Provisions pour pertes sur prêts – Les provisions pour pertes sur prêts sont déterminées annuellement par l'Agence. Il s'agit d'un montant réservé pour des pertes possibles, compte tenu du portefeuille de prêts existant. C'est là un élément important du processus budgétaire. Ces provisions sont fondées sur le bon jugement de la direction et sur les pertes possibles, telles qu'évaluées en fonction des tendances économiques sans pouvoir être encore déterminées. Les provisions pour pertes sur prêts prévues durant le processus budgétaire pour l'exercice 2008-2009 sont demeurées identiques, à 4 millions de dollars.

Dans l'ensemble, l'Agence continue d'être une société d'État financièrement responsable, qui maintient son engagement à aider les entreprises de l'Île. Elle continue d'offrir un service essentiel sans lequel bon nombre d'emprunteurs n'auraient pas accès aux fonds nécessaires pour assurer la survie ou la croissance de leur entreprise.

Agriculture

Comme le stipulent les règlements de l'Agence, les emprunteurs de ce secteur d'activités doivent soit posséder des actifs agricoles soit avoir l'intention d'utiliser le prêt consenti pour en acquérir. Ils doivent participer activement, ou avoir l'intention de participer activement, à la production de produits agricoles. Un autre objectif de l'Agence est de favoriser une production accrue des variétés établies et nouvelles, et de soutenir les produits qui constituent de bons outils de commercialisation et de promotion des produits agricoles de l'Île. En plus des prêts pour fonds de roulement, des prêts à taux fixe sont consentis aux producteurs agricoles pour des projets d'amélioration des entrepôts, des bâtiments, de la machinerie et de l'équipement de classification et d'emballage.

À la fin de l'exercice, le portefeuille du secteur de l'agriculture représentait 19,1 % (34,6 millions de dollars) de l'ensemble des prêts gérés par l'Agence, ce qui correspond à une légère hausse de 1,7 million de dollars par rapport à l'exercice précédent. La majorité des prêts accordés à l'industrie étaient destinés à la consolidation de dettes et à l'étalement de marges de crédit d'exploitation ayant connu peu de fluctuations. Au cours de l'exercice, l'Agence a reçu 43 demandes de prêts totalisant 13,3 millions de dollars.



Tout le long de l'exercice, l'Agence a continué de travailler en étroite collaboration avec un nombre croissant de clients du secteur agricole qui éprouvent des difficultés financières et a aidé certains clients dont les fermes étaient jugées viables à long terme à restructurer leurs dettes. On assiste toujours à une baisse des prix et à un amenuisement des marges de profit dans plusieurs secteurs de l'industrie. Il faut donc s'attendre à ce que l'Agence continue de recevoir des demandes d'aide financière visant la restructuration de dettes de la part de ses clients actuels et de nouveaux clients, et ce, pendant encore une bonne partie de 2010.

Dans la catégorie des comptes en souffrance, c'est-à-dire les prêts en retard depuis plus de 90 jours ou les prêts pour lesquels un risque de perte a été décelé, on a enregistré une hausse de 2,4 millions de dollars par rapport à l'exercice précédent, ce qui porte le total des comptes en souffrance à un peu plus de 7 millions de dollars. Le nombre de clients dont le compte est en souffrance est passé à 25, soit une augmentation de 10 clients par rapport à la même période l'exercice précédent.

La saison 2008 de culture de pommes de terre, qui est prise en compte dans les résultats financiers de 2008-2009 de l'Agence, a profité de conditions de croissance relativement favorables, mais les producteurs ont dû composer avec une éclosion de mildiou en septembre. Le mildiou est un champignon aquatique qui se développe dans des conditions d'humidité et de chaleur excessives. S'il n'est pas détecté, il peut entraîner des problèmes à l'entreposage. Même si les prix pour les pommes de terre de table ont été considérablement plus élevés qu'en 2007, les rendements ont décliné en raison du taux plus élevé d'élimination pour cause de maladie et de pourriture. Les réclamations à l'assurance-récolte ont été près de deux fois plus nombreuses que l'exercice précédent.

Le secteur porcin de l'Île est toujours aux prises avec de nombreuses difficultés, et son avenir continue d'être incertain. La fermeture de l'usine de transformation de porc de Sherwood en 2008 et les marges de profit toujours minces ont amené un certain nombre de producteurs à délaisser l'industrie porcine. Bien que certains aient décidé de tourner le dos à l'agriculture, d'autres se sont dirigés vers des productions comme la volaille, le soja et les légumes-racines, pour ne nommer que celles-là.

Les répercussions du ralentissement économique se font toujours sentir dans le secteur bovin, tant au niveau des consommateurs et des transformateurs que des producteurs. Les prix offerts aux producteurs qui tardent à remonter et l'augmentation des coûts d'exploitation ont entraîné des pertes financières et une diminution du nombre de producteurs bovins à l'Île. Les prix ne se sont pas vraiment rétablis depuis la découverte de cas d'encéphalopathie spongiforme bovine (ESB) en 2003. La situation a eu un effet négatif sur les marges de profit, ce qui a mis beaucoup de producteurs en difficulté financière. On s'attend à ce que les prix à l'engraissement fixés à l'automne 2009 amènent certains producteurs bovins à réévaluer leur avenir au sein de l'industrie. Malgré la baisse du nombre de producteurs, une forte proportion des producteurs bovins du Canada atlantique se

trouvent à l'Île. C'est pourquoi l'Agence continuera de travailler avec les clients actuels du secteur bovin et d'offrir son soutien lorsque le potentiel de rentabilité à long terme peut être déterminé.

La demande accrue de bleuets de la part des consommateurs et la mise en œuvre du Programme de prêts pour l'expansion de la production de bleuets dans les années 1990 ont contribué à la forte croissance de ce secteur à l'Île au cours des 10 à 15 dernières années. Le Programme, qui est toujours administré par l'Agence, a été lancé par le ministère de l'Agriculture dans le but d'offrir un soutien financier aux nouveaux producteurs qui désirent faire leur entrée dans le secteur ou aux producteurs déjà en place qui souhaitent augmenter leurs activités. Ce programme comportait des modalités de remboursement flexibles, et plus tard, un volet prévoyant l'allègement des intérêts, qui était complètement remboursé en décembre 2008.

La saison 2008 a été caractérisée par des précipitations supérieures à la moyenne en août et septembre, ce qui a rendu la cueillette des bleuets extrêmement difficile. Des pertes de récolte ont été rapportées en raison des fortes pluies, qui ont fait tomber les baies des arbustes, et de l'humidité excessive des terres, qui a empêché l'accès aux champs avant la chute des bleuets. Malgré ces conditions défavorables, on a récolté 9,8 millions de livres de bleuets sauvages en 2008, ce qui représente une hausse de 18 % par rapport à la récolte de 8,3 millions de livres de l'exercice précédent. Malheureusement, le prix payé en 2008 a chuté à environ 0,60 \$ la livre, alors qu'il atteignait entre 1,10 \$ et 1,20 \$ la livre en 2007, et plus de 1 \$ la livre en 2006. Pour 2009, on s'attend à une augmentation de la production, qui devrait atteindre entre 11 et 12 millions de livres. Toutefois, on s'attend également à ce que le prix chute en dessous du prix payé en 2008. L'Agence continuera d'aider l'industrie et ses producteurs lorsque la viabilité est possible.

En 2008, les 14 producteurs de canneberges de

l'Île ont récolté environ 643 000 livres de canneberges, ce qui représente une hausse par rapport aux 586 000 livres récoltées en 2007 et aux 450 000 livres récoltées en 2006. La majeure partie de la récolte a été vendue au marché de la transformation. Le reste des fruits a été écoulé sur le marché du frais. Le nombre de producteurs demeure constant à l'Île. On observe toutefois une légère hausse du nombre d'acres cultivées, puisque certaines entreprises ont pris de l'expansion. En 2008, on comptait environ 113 acres à divers stades de développement commercial. La superficie en production était alors d'environ 76 acres, tandis que le reste de la superficie, soit 37 acres, était encore non productive. Le prix moyen payé aux producteurs pour le marché du fruit frais en 2008 était d'environ 1,50 \$ à 2,00 \$ la livre. Le marché de la transformation a permis aux producteurs d'empocher entre 0,85 \$ et 0,90 \$ la livre en 2008, comparativement à environ 0,80 \$ la livre en 2007 et à 0,55 \$ la livre en 2006. En 2008, la superficie en culture a augmenté; par contre, ces acres supplémentaires sont encore non productives. On s'attend à ce que la récolte de 2009 soit semblable à celle de l'exercice précédent.

Pêches et aquaculture

Pour l'exercice qui s'est terminé le 31 mars 2009, l'Agence a reçu du secteur des pêches 88 demandes de prêts s'élevant à 10 250 000 \$, ce qui représente environ la moitié de toutes les demandes reçues par l'Agence au cours de l'exercice. Il s'agit d'une baisse de 75 % par rapport à 2008, alors que 193 demandes avaient été présentées. Par contre, le sommet atteint en 2008 était en grande partie attribuable à la mise en place cette année-là du programme de prêts à faible taux d'intérêt destiné aux pêcheurs de homard des zones de pêche 25 et 26A. Dans le cadre de ce programme, l'Agence accordait aux pêcheurs admissibles un faible taux d'intérêt de 4 % sur les prêts d'un montant maximal de 200 000 \$. Les prêts devaient servir à consolider les dettes. Naturellement, ce programme a entraîné une hausse des demandes de financement présentées à l'Agence cette année-

là. La baisse du nombre de demandes présentées au cours de la période à l'étude est simplement un retour à une demande de financement plus normale pour le secteur, même si le nombre de demandes demeure élevé comparativement à d'autres secteurs économiques faisant également partie du portefeuille de l'Agence.



À la fin de l'exercice, le risque total encouru par l'Agence pour le secteur des pêches était de 63 395 000 \$, ce qui représente une augmentation de 20 % par rapport à la même période l'exercice précédent. Les prêts accordés à ce secteur représentaient 36 % du portefeuille total de l'Agence; à la fin de l'exercice, on comptait au total 386 prêts pour 369 clients. En 2008, les prêts accordés à ce secteur représentaient 31 % de l'ensemble du portefeuille de l'Agence, et on comptait 314 prêts répartis entre 296 clients. Les 3 principaux produits de la pêche à l'Île sont toujours le homard, les moules et les huîtres, qui ont généré, respectivement, des ventes d'environ 100,7 millions, 22,4 millions et 5,7 millions de dollars en 2009. Le homard continue à être, de loin, l'espèce qui génère les revenus bruts les plus importants. Les débarquements de homard sont répartis de la façon suivante :

| Zone de pêche | Débarquements en 2008 (en lb) | Débarquements en 2007 (en lb) | Variation par rapport à l'exercice précédent (en %) |
|---|----------------------------------|----------------------------------|--|
| Zone 24 (secteur nord) | 14036441 | 13 230 026 | + 6,1 |
| Zone 26A (zone de pêche printanière – secteur sud) | 4 832 251 | 3 880 136 | + 24,5 |
| Zone 25 (zone de pêche automnale – secteur sud) | 3 033 650 | 3 013 874 | + 0,7 |
| Total | 21 902 342 | 20 124 036 | 8.8 |

Les débarquements dans la zone 24, soit le secteur nord, sont toujours considérablement plus élevés que dans les zones 25 et 26A. Le changement le plus important est observé dans la zone 26A, où les débarquements ont fait un bond spectaculaire de 24,5 % par rapport à 2007. Chaque zone fait face à ses propres défis. La hausse des débarquements ne compense pas la chute des prix au débarquement et la hausse des frais d'exploitation auxquelles sont confrontés les pêcheurs de l'Île.

À la fin de l'exercice, 85 des 369 clients de l'Agence avaient des comptes en souffrance. Ces retards de paiement représentaient un peu plus de 6 millions de dollars. À la même période l'exercice précédent, 40 des 299 clients avaient des comptes en souffrance, qui totalisaient 3,2 millions de dollars. Bien que ces chiffres aient quasiment doublé par rapport à l'exercice précédent, il est à noter que 2,8 millions de ces arriérés sont attribuables à des prêts consentis à 7 pêcheurs de crabe des neiges.

Actuellement, l'Agence est exposée à un risque considérable pour ses prêts accordés au secteur des pêches. L'Agence compte continuer à soutenir cette industrie en ces temps difficiles. Le personnel de l'Agence travaille toujours sans relâche avec ses clients dans le but d'améliorer leur situation financière et de limiter les risques accrus de pertes sur prêts.

Tourisme

Ce secteur a connu des difficultés au cours des dernières années, et la situation ne s'est pas vraiment améliorée en 2008, du moins pour les entreprises offrant de l'hébergement en dur et pour les terrains de camping situés dans les secteurs ruraux de la province. Le ralentissement économique mondial a eu des répercussions négatives sur la confiance des consommateurs. Cette baisse de confiance se manifeste par une certaine réticence à faire des dépenses de luxe, comme celles liées aux voyages. L'attrait des destinations tropicales et de leurs forfaits « tout inclus » en hiver et les mauvaises conditions météorologiques que l'Île a connues au début du mois de juillet ont également contribué à la faiblesse du taux d'occupation cette année.



Au cours de l'exercice précédent, l'Agence a reçu 8 demandes de prêts s'élevant à 2 411 750 \$. Elle en a approuvé 4, pour un total de 1 163 387 \$. Le nombre de clients du secteur touristique a diminué, passant de 48 à 39. Le total des prêts à la fin de l'exercice s'élevait à 23 530 013 \$, ce qui représente une diminution de 15,5 % du volume du portefeuille par rapport à l'exercice précédent.

Malgré les chiffres à la baisse, la santé financière du portefeuille demeure relativement bonne. À la fin de l'exercice, les comptes en souffrance étaient répartis entre 5 clients et s'élevaient à 1 335 202 \$. À la même période l'exercice précédent, 9 clients avaient des arriérés totalisant 1 870 700 \$. L'Agence possède de bonnes garanties pour tous les investissements dans ce secteur, ce qui permet de limiter les risques de pertes.

Petites entreprises

Contrairement aux secteurs de l'agriculture, des pêches et du tourisme, qui sont composés d'entreprises dont le secteur d'activités est davantage défini, le portefeuille des prêts aux petites entreprises est composé d'un large éventail de clients. Dans ce secteur, les prêts sont principalement consentis sous forme d'hypothèques commerciales. Aucun financement n'est consenti pour le fonds de roulement.

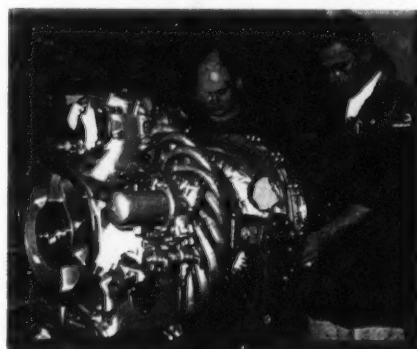
Pour l'exercice qui s'est terminé le 31 mars 2009, l'Agence a reçu 20 demandes de prêts, dont 17 ont été approuvées, pour un total de 12,9 millions de dollars. À la fin de l'exercice, près de 7 millions de dollars avaient été versés. Les arriérés demeurent faibles et représentent 3 % du portefeuille, soit 790 000 \$.

À l'instar des autres secteurs, les exploitants de petites entreprises s'efforcent de faire plus avec moins. Ils semblent attendre d'avoir la certitude que le marché pourra soutenir leurs investissements avant de contracter de nouvelles dettes. Comme c'est le cas dans le secteur touristique, les actifs corporels sont les

principales garanties de prêts dans ce secteur.

Aérospatiale

L'Agence offre actuellement du financement aux entreprises œuvrant dans la réparation et la révision des aéronefs à voilure fixe, et dans l'aménagement intérieur et la construction de cabines. Le portefeuille de prêts du secteur de l'aérospatiale représente actuellement 15 % du portefeuille total de l'Agence, qui est de 178 millions de dollars. Contrairement aux autres secteurs faisant partie du portefeuille de l'Agence, dont le risque est habituellement bien réparti parmi un grand nombre de clients, les investissements de l'Agence dans le secteur de l'aérospatiale sont détenus par seulement 2 entreprises. Au cours de la période à l'étude, seulement 2 demandes totalisant 13 millions de dollars ont été reçues. Une demande a été acceptée, l'autre retirée.



L'Agence a observé peu de croissance ou d'occasions dans ce secteur au cours des dix dernières années comparativement à l'époque de la création de Slemon Park. Les prêts pour immobilisations dont les clients avaient besoin les premières années, et qui étaient consentis par le gouvernement, sont maintenant remplacés par d'autres instruments financiers et d'emprunt auxquels les clients accèdent directement sur les marchés monétaires. Les grandes multinationales installées à Slemon Park sont cotées en bourse ou possèdent une capacité d'emprunt suffisante pour s'autofinancer, du moins en majeure partie.

Les clients qui évoluent dans ce secteur doivent présenter des états financiers trimestriels. Dans l'ensemble, le risque relativement aux prêts accordés à ce secteur demeure stable, et aucun compte n'était en souffrance à la fin de l'exercice.

Fabrication et transformation

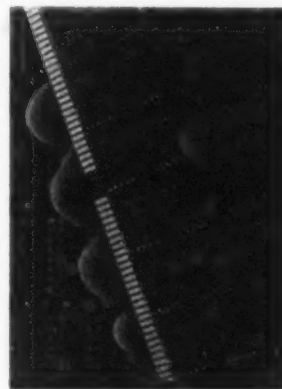
Les prêts accordés dans ce secteur englobent un éventail d'industries, y compris des entreprises de transformation des aliments, des équipementiers et des entreprises de construction navale.

Le dernier exercice a été difficile pour les fabricants et les transformateurs. La crise économique mondiale et la force du dollar canadien ont compliqué le travail des clients de ce secteur. L'incertitude économique et les prévisions de croissance stagnante ont entraîné une baisse du nombre de demandes reçues par l'Agence par rapport à l'exercice précédent.

Au cours de l'exercice 2008-2009, l'Agence a reçu 12 demandes de prêts totalisant 6,9 millions de dollars, soit une augmentation de près de 5,5 millions par rapport à l'exercice précédent. Toutefois, à l'exception d'une demande s'élevant à 5 millions de dollars, le montant des demandes de prêts n'était pas élevé, avec une moyenne de 173 000 \$. L'investissement total de l'Agence dans ce secteur à la fin de l'exercice n'était que de 7,5 millions de dollars, comparativement à 11,5 millions en 2008. Ces prêts représentent 4 % de l'ensemble du portefeuille de l'Agence, alors qu'ils représentaient 7 % du portefeuille en 2008.

Technologie de l'information

Pour le troisième exercice consécutif, l'Agence n'a connu aucune croissance dans ce secteur. L'Agence n'encourt actuellement aucun risque dans ce secteur. Une seule demande a été reçue au cours de la période à l'étude, mais elle a été refusée.



Corporate Directory

Appendix A

As of March 31, 2009

Executive

Ivan Shreenan
Chairman

Gerard LeClair
Vice-Chairman

Peter A. Wilson*
Secretary-Treasurer and Chief Executive Officer

Members of the Board

Barrie Harris
Murray Harbour, PE

Louis McIssac
Fairview, PE

Eric Ferrish
Summerside, PE

Wayne Fudge
Charlottetown, PE

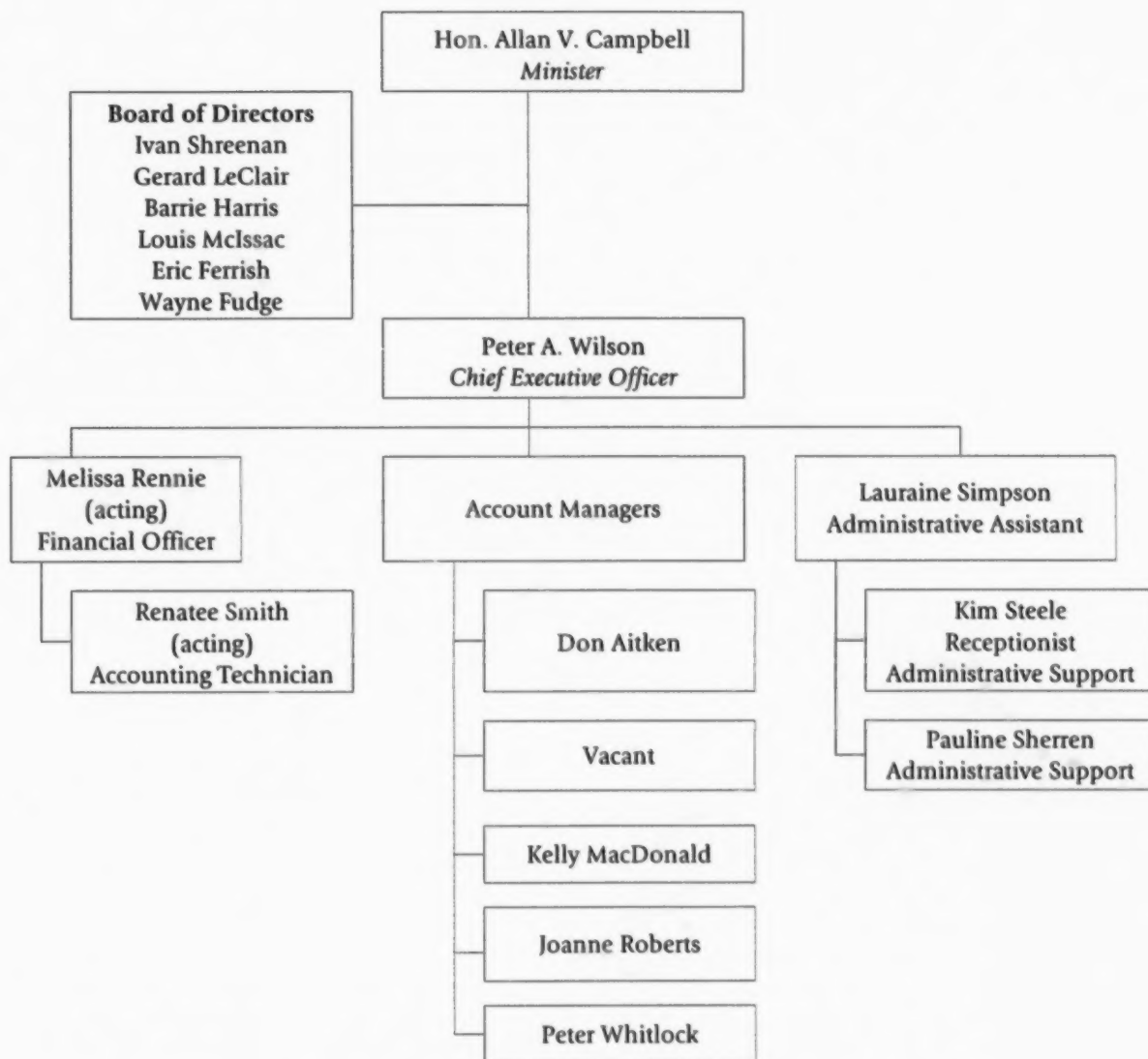
Paul R. Jelley
Deputy Provincial Treasurer

Dr. Michael Mayne
Deputy Minister
Department of Innovation and Advanced Learning

*** Non-voting**

Organizational Chart

Appendix B



Auditor's Report

Appendix C



A Member Firm of The AC Group of Independent Accounting Firms Limited

Chartered Accountants &
Business Advisors
Prince Edward Place
80 Water Street
PO Box 455
Charlottetown, Prince Edward Island
Canada C1A 7L1
Telephone (902) 368-3100
Fax (902) 566-5074
www.acga.ca

April 30, 2009

Auditors' Report

To the Board of Directors

We have audited the balance sheet of **P.E.I. Lending Agency** as at March 31, 2009 and the statements of earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

ArsenaultBestCameronEllis

Chartered Accountants

Financial Statements

Appendix D

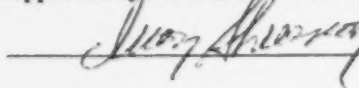
P.E.I. Lending Agency

Balance Sheet

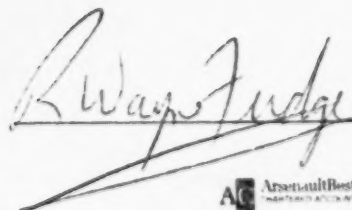
As at March 31, 2009

| | 2009 \$ | 2008 \$ |
|---|--------------------|--------------------|
| Assets | | |
| Cash | 1,007,199 | 909,419 |
| Accounts receivable (note 9) | 3,223 | 181,271 |
| Loans receivable (note 4) | 147,403,326 | 137,602,516 |
| Property holdings and leased property (note 5) | 294,844 | 15,936 |
| | <u>148,708,592</u> | <u>138,709,142</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities (note 9) | 320,053 | 337,796 |
| Due to Province of Prince Edward Island (note 3) | 428,000 | 700,000 |
| Notes payable (note 6) | <u>146,870,737</u> | <u>137,426,484</u> |
| | <u>147,618,790</u> | <u>138,464,280</u> |
| Contingent liabilities (note 7) | | |
| Retained earnings | | |
| Retained earnings (deficit) - Beginning of year | 244,862 | (359,126) |
| Excess revenue for the year | <u>844,940</u> | <u>603,988</u> |
| Retained earnings - End of year | <u>1,089,802</u> | <u>244,862</u> |
| | <u>148,708,592</u> | <u>138,709,142</u> |

Approved by the Board of Directors

 Director

(2)

 Director

AC Arsenault Best Cameron Ellis
INCORPORATED ACCOUNTANTS

P.E.I. Lending Agency

Statement of Earnings

For the year ended March 31, 2009

| | 2009 | | 2008 |
|------------------------------------|-------------------------------|--------------|--------------|
| | Budgeted (Unaudited) \$ | Actual \$ | Actual \$ |
| Revenue | | | |
| Grants from Province | 1,386,500 | 1,433,800 | 5,386,500 |
| Alternative energy loan fees | - | 109,721 | 73,538 |
| Interest from borrowers | 11,363,000 | 10,786,359 | 11,344,491 |
| Interest from deposits | 25,000 | 50,878 | 52,140 |
| Prepayment interest | - | 18,951 | 109,583 |
| Service fees | 75,000 | 250,580 | 203,253 |
| Post-receivership income | - | 20,823 | 15,378 |
| | 12,849,500 | 12,671,112 | 17,184,883 |
| Expenses | | | |
| Office supplies and printing | 14,600 | 26,923 | 20,544 |
| Telecommunications | 12,000 | 8,689 | 9,266 |
| Rent and occupancy | 107,800 | 115,087 | 105,442 |
| Meetings and hosted conferences | 4,000 | 2,643 | 2,305 |
| Furniture and computer equipment | 11,000 | 1,735 | 8,143 |
| Advertising and promotion | 3,000 | 7,775 | 8,908 |
| Office equipment rentals | 7,000 | 6,558 | 4,599 |
| Library and subscriptions | 1,200 | 1,303 | 1,538 |
| Insurance | - | 2,665 | 6,400 |
| Miscellaneous | 6,500 | 5,790 | 4,796 |
| Professional services | 42,000 | 22,797 | 47,054 |
| Salaries and benefits | 709,340 | 852,515 | 667,747 |
| Travel and training | 39,400 | 17,082 | 19,097 |
| Interest (note 9) | 7,891,660 | 6,754,610 | 7,171,056 |
| Provision for possible losses | 4,000,000 | 4,000,000 | 8,504,000 |
| | 12,849,500 | 11,826,172 | 16,580,895 |
| Excess revenue for the year | - | 844,940 | 603,988 |

P.E.I. Lending Agency

Statement of Cash Flows

For the year ended March 31, 2009

| | 2009 \$ | 2008 \$ |
|--|------------------|--------------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Excess revenue for the year | 844,940 | 603,988 |
| Net change in non-cash working capital items | | |
| Decrease (increase) in accounts receivable | 178,048 | (25,586) |
| Decrease in accounts payable and accrued liabilities | (17,743) | (175,361) |
| Decrease in due from Province of Prince Edward Island - current operations | - | 3,400,000 |
| | <u>1,005,245</u> | <u>3,803,041</u> |
| Financing activities | | |
| Decrease (increase) in loans receivable (net) | (9,800,810) | 3,641,143 |
| Increase in notes payable | 19,200,000 | 26,000,000 |
| Retirement of notes payable | (9,755,747) | (32,390,430) |
| Decrease in due to Province of Prince Edward Island - alternative heating loan program | (272,000) | (630,000) |
| | <u>(628,557)</u> | <u>(3,379,287)</u> |
| Investing activities | | |
| Additions to and purchases of property holdings | (1,977,980) | (73,820) |
| Reductions and proceeds on disposal of property holdings | 1,698,951 | 426,809 |
| Increase (decrease) in leased property (net) | 121 | (181) |
| | <u>(278,908)</u> | <u>352,808</u> |
| Change in cash | 97,780 | 776,562 |
| Cash - Beginning of year | 909,419 | 132,857 |
| Cash - End of year | 1,007,199 | 909,419 |
| Supplementary disclosure | | |
| Interest and dividends received | 10,852,610 | 11,454,074 |
| Interest paid | 6,727,923 | 7,235,568 |

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2009

1 Status of the corporation

P.E.I. Lending Agency is a Crown corporation established by a proclamation of the Lending Agency Act dated December 31, 1998. The Agency's financial results are included in the public accounts of the Province of Prince Edward Island.

2 Summary of significant accounting policies

These financial statements have been prepared in accordance with generally accepted accounting principles.

a) Allowance for possible losses

An allowance is maintained which is considered adequate to absorb all credit losses and is deducted from the applicable asset on the balance sheet.

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions on loans receivable and leased property total \$21,518,354 (2008 - \$20,360,232).

The company reviews its loan portfolios and leased properties on an ongoing basis to assess whether a loan should be classified as impaired, or as an allowance or as a write-off.

A variety of methods are used to determine the amount expected to be recovered from impaired loans and property holdings, including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken.

A general provision on loans receivable and leased property of \$11,764,306 (2008 - \$9,773,532) includes accumulated allowances for losses which are prudential in nature and cannot be specifically identified. The general provision is based on past performance of similar loans, the level of the specific provision, management's judgement, the economic climate and the maturity and financial strength of the investee.

b) Loans receivable

Working capital loans are issued to qualified lenders and are recorded at cost less an allowance for possible losses. These loans bear interest at the Toronto Dominion Bank prime rate plus 1% to 2 ¾% and are repayable at the end of each sector's operating season or specific project.

Mortgage loans consist of loans issued to Prince Edward Island enterprises for purposes of acquiring property and equipment. These loans are recorded at cost less an allowance for possible losses. These loans are issued at long-term interest rates and are repayable over various terms to a maximum of 20 years with interest rates ranging from 4% to 12.62%.

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2009

Interest income is recorded on the accrual basis until such time as the loan is classified as non-current. A loan is classified as non-current when the Agency has been unsuccessful in its attempt to collect arrears payments or have the loan satisfied.

An impaired loan is a loan in arrears in excess of 120 days or where in management's opinion there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest.

Lease income is recorded on an accrual basis until the lease is repaid or the property is transferred to property holdings - foreclosed projects. When a lease is in arrears in excess of 120 days or when in management's opinion there is no longer reasonable assurance of the timely collection of the full amount of principal and interest, the lease is classified as impaired.

c) Property holdings and amortization

Office furniture and equipment and computer equipment are fully expensed in the year of acquisition. The amount expensed during the year ended March 31, 2009 was \$1,735 (2008 - \$8,143).

Foreclosed projects are carried at the lower of cost of the impaired asset prior to realization of the related security and the underlying estimated realizable value of the security.

The reduction from cost to estimated realizable value is recorded as an allowance for possible losses.

d) Pension liabilities

The Agency's staff are members of the Province of Prince Edward Island pension plan. The pension plan obligation is a liability of the Province and not the Agency and no liability for these costs has been accrued by the agency at March 31, 2009.

e) Estimated realizable value of financial instruments

Estimated realizable value (fair value) is subjective in nature requiring a variety of valuation techniques and assumptions. The company's financial instruments are not exchangeable and it is difficult, and often not practical, to determine their estimated realizable value. Where it is possible to estimate realizable value, the company assumes that it will not sell the assets or the liabilities, taking into account only changes in credit risk as credit risk is the main cause of change in the estimated realizable value of the Agency's financial instruments. Credit risk is defined as the risk that the note holder will fail to discharge an obligation in whole or in part resulting in a financial loss to this company.

f) Management estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those reported.

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2009

g) Financial instruments

Financial instruments are comprised of cash, accounts receivable, due to Province of Prince Edward Island, loans receivable, accounts payable and accrued liabilities and notes payable. They are classified and accounted for as follows:

- Loans receivable are recorded at amortized cost using the effective interest method.
- Notes payable are recorded at its amortized cost using the effective interest method.
- Due to their short-term nature, all other financial instruments are carried at amounts which are considered to approximate their fair value.

P.E.I. Lending Agency does not enter into hedging activities and does not engage in derivative transactions.

h) Financial risk management objectives and policies

P.E.I. Lending Agency's risk management policies are part of the overall management of the Agency's operations. Management's direct involvement in day-to-day operations identifies risks and variations from expectations leading to changes in risk management activities, requirements and actions. As part of the overall management of the Agency's operations, management considers avoidance of undue concentrations of risk, and employs appropriate investment and credit management policies to manage the agency's exposure.

3 Due from (to) the Province of Prince Edward Island

| | 2009 \$ | 2008 \$ |
|---|------------|-------------|
| Current operations | | |
| Balance - Beginning of year | - | 3,400,000 |
| Repaid by the province during the year | - | (3,400,000) |
| Balance - End of year | - | - |
| Alternative Heating loan program | | |
| Balance - Beginning of year | (700,000) | (1,330,000) |
| Repaid to the province | 272,000 | 630,000 |
| Balance - End of year | (428,000) | (700,000) |

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2009

In 2006 and 2007, the Province advanced \$1,330,000 in non-interest bearing funds to P.E.I. Lending Agency to be disbursed as unsecured loans administered by the Agency under the Alternative Heating Loan program. The Agency has disbursed \$1,189,860 in loans approved and guaranteed by the Provincial Department of Energy at an interest rate of 6%. Repayment terms vary on these loans from one to five years. Principal repayments received on these loan plus any undisbursed program funds are repayable to the Province. Interest earned on the loans is revenue of the P.E.I. Lending Agency

During the year, two new energy loan programs were administered by the P.E.I Lending Agency, the Renewable Energy and Eco Energy loans. These loans are financed by the Agency and are guaranteed by the provincial Department of Energy.

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2009

4 Loans receivable

| | 2009 | | | | 2008 | |
|----------------------------------|-------------|---|-------------------------------|----------------|-------------|-------------|
| | Total \$ | Impaired loans included in total \$ | Allowance for possible losses | | Net \$ | Net \$ |
| | | | General \$ | Specific \$ | | |
| Working capital loans | | | | | | |
| Agriculture | 7,392,221 | 1,589,754 | 1,764,306 | 700,000 | 4,927,915 | 6,381,327 |
| Tourism | 821,015 | - | - | - | 821,015 | 246,842 |
| Manufacturing and processing | 1,402,348 | 131,143 | - | - | 1,402,348 | 2,547,914 |
| Fisheries | 2,419,980 | 4,871 | - | - | 2,419,980 | 2,113,095 |
| Small business | 5,818,750 | - | - | - | 5,818,750 | 430,038 |
| Beef Cash Flow | 50,292 | 782 | - | - | 50,292 | 176,629 |
| Aerospace | 2,961,238 | - | - | - | 2,961,238 | 15,280,202 |
| | 20,865,844 | 1,726,550 | 1,764,306 | 700,000 | 18,401,538 | 27,176,047 |
| Mortgage loans receivable | | | | | | |
| Alternative Heating program | 422,885 | - | - | - | 422,885 | 707,196 |
| Agriculture | 12,732,684 | 3,912,098 | 500,000 | 115,000 | 12,117,684 | 8,960,506 |
| Tourism | 22,708,998 | 1,335,202 | 500,000 | 2,000,000 | 20,208,998 | 24,586,765 |
| Manufacturing and processing | 4,681,315 | 613,891 | 650,000 | 295,000 | 3,736,315 | 5,844,649 |
| Fisheries | 58,946,501 | 26,610,690 | 6,250,000 | 8,232,630 | 44,463,871 | 36,858,706 |
| Aquaculture | 138,555 | 123,194 | - | - | 138,555 | 46,653 |
| Small business | 14,737,943 | 277,900 | 500,000 | - | 14,237,943 | 12,263,162 |
| Blueberry | 4,831,205 | 2,572,746 | 1,250,000 | 1,000,000 | 2,581,205 | 4,277,765 |
| Cranberry | 1,936,954 | 1,175,579 | 350,000 | 1,150,000 | 436,954 | 1,183,632 |
| Aerospace | 23,232,722 | - | - | - | 23,232,722 | 13,084,096 |
| Renewable energy | 965,073 | - | - | - | 965,073 | 668,363 |
| Eco energy | 1,554,048 | - | - | - | 1,554,048 | - |
| Other | 10,785,476 | 10,700,711 | - | 5,879,941 | 4,905,535 | 1,944,976 |
| | 157,674,359 | 47,322,011 | 10,000,000 | 18,672,571 | 129,001,788 | 110,426,469 |
| | 178,540,203 | 49,048,561 | 11,764,306 | 19,372,571 | 147,403,326 | 137,602,516 |

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2009

Continuity of allowance for possible losses

| | 2009 \$ | 2008 \$ |
|---|-------------|------------|
| Allowance for possible losses - Beginning of year | 29,576,569 | 20,673,228 |
| Add: Provision recorded during year | 3,566,460 | 8,810,877 |
| Add: Transferred from investments | - | 540,950 |
| Less: Transferred to property holdings | (1,475,058) | (448,486) |
| Less: Loans written off during the year | (531,094) | - |
| Allowance for possible losses - End of year | 31,136,877 | 29,576,569 |

5 Property holdings and leased property

| | 2009 \$ | 2008 \$ |
|---|-------------|------------|
| Foreclosed projects - land, buildings and equipment held for resale | 2,440,257 | 572,640 |
| Less: Allowance for possible losses | (2,145,783) | (557,195) |
| | 294,474 | 15,445 |
| Leased property - agricultural leases | 370 | 491 |
| | 294,844 | 15,936 |

Continuity of allowance for possible losses

| | 2009 \$ | 2008 \$ |
|---|------------|-------------|
| Allowance for possible losses - Beginning of year | 557,195 | 1,593,890 |
| Add: Provision (recovery) recorded during year | 433,538 | (275,559) |
| Add: Transferred from loans receivable | 1,475,058 | 448,486 |
| Less: Write-offs | (320,008) | (1,209,622) |
| Allowance for possible losses - End of year | 2,145,783 | 557,195 |

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2009

6 Notes payable

| | 2009 \$ | 2008 \$ |
|-----------------------------|--------------------|--------------------|
| Short-term promissory notes | 3,200,010 | - |
| Long-term | 143,670,727 | 137,426,484 |
| | <u>146,870,737</u> | <u>137,426,484</u> |

Short-term promissory notes are issued to the Province of Prince Edward Island with interest set monthly based on the Province's short-term lending rate in existence at the first day of the month. These notes are renewed on an ongoing basis with interest payable monthly.

The notes payable - long-term are issued to the Province of Prince Edward Island and have various repayment terms and interest rates ranging from 3.18% to 6.69%.

The aggregate amount of principal payments required in each of the next five years to meet retirement provisions is as indicated below:

| | \$ |
|----------------------------|------------|
| Year ending March 31, 2010 | 33,200,026 |
| 2011 | 38,459,201 |
| 2012 | 27,970,497 |
| 2013 | 21,716,057 |
| 2014 | 25,524,966 |

7 Contingent liabilities

A counterclaim has been commenced against P.E.I. Lending Agency in response to an action for a deficiency remaining after realization on collateral held by the P.E.I. Lending Agency. The claimant has not provided any details as to the nature and extent of damages or loss for which they seek compensation. It is management's opinion that no liability is likely to arise as a result of this counterclaim. The counterclaim is presently still ongoing.

During the year, a claim against P.E.I Lending Agency in the amount of \$288,807 was determined at the trial level. The Agency has not recognized the liability in its accounts as the matter is to be appealed by the P.E.I Lending Agency. At this time, the outcome of the appeal is not determinable.

8 Commitments

The P.E.I. Lending Agency new loans approved but not disbursed at March 31, 2009 amount to \$2,021,629 (2008 - \$9,515,385).

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2009

9 Related party transactions

Balance Sheet

Included in accounts receivable is nil (2008 - \$178,019) due from a department of the Province of Prince Edward Island.

Included in accounts payable and accrued liabilities is \$271,071 (2008 - \$244,384) in accrued interest payable to the Province of Prince Edward Island.

Statement of earnings

Included in expenses is the following in interest paid/payable to the Province of Prince Edward Island:

| | 2009 \$ | 2008 \$ |
|--------------------------------------|------------------|------------------|
| Interest on long-term borrowings | 6,654,371 | 6,491,803 |
| Interest on short-term notes payable | 100,239 | 679,253 |
| | <u>6,754,610</u> | <u>7,171,056</u> |

The above transactions were recorded in the normal course of operations.

P.E.I. Lending Agency

Notes to Financial Statements

March 31, 2009

10 Interest rate risk

The following table sets out the assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the Agency's interest rate risk position is limited by the fact that borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing date. Examples of this include mortgages, which are shown at contractual maturity but which could prepay earlier.

| | Within 1 year \$ | After 1 year but within 5 years \$ | After 5 years \$ | Not interest rate sensitive \$ | Provision for possible losses \$ | Total \$ |
|---|------------------------|--|------------------------|--|--|--------------------|
| Assets | | | | | | |
| Cash | 1,007,199 | - | - | - | - | 1,007,199 |
| Accounts receivable | - | - | - | 3,223 | - | 3,223 |
| Loans receivable | 43,900,737 | 120,320,111 | 14,319,354 | - | (31,136,876) | 147,403,326 |
| Property holdings and leased property | 370 | - | - | 2,440,257 | (2,145,783) | 294,844 |
| Total assets | 44,908,306 | 120,320,111 | 14,319,354 | 2,443,480 | (33,282,659) | 148,708,592 |
| Liabilities and deficit | | | | | | |
| Accounts payable and accrued liabilities | - | - | - | 320,053 | - | 320,053 |
| Due to Province of Prince Edward Island | - | - | - | 428,000 | - | 428,000 |
| Notes payable | 33,200,016 | 113,670,721 | - | - | - | 146,870,737 |
| Surplus | - | - | - | 1,089,802 | - | 1,089,802 |
| Total liabilities and deficit | 33,200,016 | 113,670,721 | - | 1,837,855 | - | 148,708,592 |
| Interest rate sensitivity gap | 11,708,290 | 6,649,390 | 14,319,354 | 605,625 | (33,282,659) | - |
| Cumulative interest rate sensitivity gap | 11,708,290 | 18,357,680 | 32,677,034 | 33,282,659 | - | - |

Clarification to Note 4 of Financial Statements

Appendix E

Column 1 – Total

Represents the total loan/leases divided by economic sector. These balances represent the balance owing at March 31, 2009, before any provision for loss. The "other" category is comprised of loans classified as non-current, wherein interest is no longer being accrued.

Column 2 – Impaired

Represents loans in arrears in excess of 120 days, or where in management's opinion, there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest. Management's assessment is based on the extent of the arrears, the value of collateral security, the cash flow of the borrower and management's judgement. The impaired loans are included in the total loan/leases in column (1).

Column 3 – Allowance for possible losses – General

A provision for loss based on management's judgement by sector whereby adverse economic trends suggest losses may occur, but where such losses cannot yet be determined on an item-by-item basis. Management takes into consideration past performance of similar loans, the level of specific provision and the existing economic climate.

Column 4 – Allowance for possible losses – Specific

Indicates the provision required to reduce particular assets from their book value to their estimated realizable value. Management takes into account the estimated future cash flow of the borrower and the estimated fair value of the collateral security held of the borrower.

Column 5 – Net

Indicates the total loan/lease (column 1), less the general and specific provisions for loss (columns 3 and 4).



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